

When you don't have the money you need to pay a bill or several bills, why not go to the lender who makes it easy to get a loan? Why not? Because you will be paying a very high interest rate. Under the Truth in Lending Act, the cost of the payday loans, like other types of credit, must be disclosed. Among other information, you must receive, in writing, the finance charge (a dollar amount) and the annual percentage rate or APR (the cost of credit on a yearly basis). **Indiana's new maximum charge for a \$100 loan is \$15.00 for a term of 14 days for an APR of 390%. A loan over \$100 has a maximum rate of 15% on the first \$100 and 10% of loan amount over \$100 with a maximum of \$35.00.**

Check cashers, banks, and other companies are making small-sum, short-term, very high rate loans that go by a variety of names: "payday loans," "cash-advance loans," "check-advance loans," postdated check loans," or "deferred-deposit check loans."

Typically, you write a personal check payable to the lender for the amount you wish to borrow plus a fee. The check may be postdated for a future day when you are due to repay the loan, which is generally 1 or 2 weeks from the day you are writing the check. If you extend or "roll-over" the loan, you will pay the fees for each extension. In the above example, if the \$100 loan was rolled-over three times, the finance charges paid would have been \$99 and the debtor would still owe the \$100.00. **In Indiana, a \$100 loan renewed three times would result in \$41.25 finance charges with a \$25.00 reduction in principal and a balance still owing of \$75.**

WHAT ARE THE CONSEQUENCES?

- ◆ The cost of the loan is very high.
- ◆ Once you get a loan, where will you get the additional money to pay it off?
- ◆ You can be threatened with prosecution for "hot" or "bounced" checks, even though the lender knew at

the time you wrote the check that you had insufficient funds in your account—that was the reason for the loan.

- ◆ If you pay another fee to renew the loan for another term, you may get caught in a cycle of debt. You are never able to pay down the principal, but you are repaying the fee over and over again. The result can be that you are paying a very high annual percentage rate (APR). **Indiana requires 25% reductions in the principal after the second renewal for three renewals. If there is a balance remaining after the three renewals, the rate is reduced to 36% APR.**

WHAT ARE YOUR ALTERNATIVES?

There are other options. Consider the following possibilities:

- ◆ When you need a loan, shop carefully. Look for the credit offer with the lowest APR. Some banks, credit unions, or small lending companies will make small loans at reasonable interest rates.
- ◆ Find out about overdraft protection at your bank if you are concerned about inadvertently overdrawing on your account. If you are regularly using most or all of the funds in your account and if you make a mistake in your checking (or savings) account records, overdraft protection can help protect you from further credit problems. **Find out the terms of overdraft protection.**
- ◆ A cash advance on a credit card may also be a possibility, but it may have a higher interest rate than your other sources of funds. Find out the terms before you decide.
- ◆ Borrow from a friend or family member.
- ◆ Check with your employer for a possible pay advance.
- ◆ Ask a current creditor if you could defer or skip a payment. The fee for the skipped payment will be far less than the charges for a payday loan.

- ◆ Make a realistic budget and figure your monthly and daily expenditures. Avoid unnecessary purchases - even small daily items. Their costs add up. See our Brochure on What is a Budget?

Before getting a loan at a high interest rate, consider your other options. If you decide you must use a payday loan, borrow only as much as you can afford to pay with your next paycheck and still have enough to make it to the next payday.

WHAT CAN YOU DO NEXT?

If you frequently find you are just a little short of cash each month or can't pay unexpected bills, have you looked at your income and expenses? Can you develop a savings plan? If you track where you spend your money, you may find ways to save. Are there some purchases you don't have to make?

With just \$300 in a savings account, you may avoid going to a payday lender if you have a financial emergency. Instead of paying a fee, you will be earning interest on your money until you need it. This can give you a buffer against financial emergencies.

If you need help in preparing a spending plan or budget, you can get it from a cooperative extension agent or a nonprofit credit counseling agency in your area. There are non-profit groups in every state that offer credit guidance to consumers. These services are available at little or no cost. Check your telephone company's yellow pages, or see "For More Information" below.

TO COMPLAIN

If you believe a lender has violated the Truth in Lending Act, you can file a complaint with the Federal Trade Commission (FTC) by contacting the Consumer Response Center by phone: toll-free 1-877-FTC-HELP (382-4357); TDD: 202-326-2502; by mail: Consumer

Response Center, Federal Trade Commission, 600 Pennsylvania Avenue, N. W., Washington DC 20580; or by e-mail: use the online complaint form at www.ftc.gov. Although the Commission cannot resolve individual problems for consumers, it can act against a company if it sees a pattern of possible law violations.

FOR MORE INFORMATION

Web Resources:

Consumer Federation of America (CFA)
www.consumerfed.org/

The CFA has done an extensive study on payday lenders. You can obtain a copy from its Web site. See the publications list under "Safe Harbor for Usury: Recent Developments in Payday Lending."

Cooperative Extension Agents
www.reeusda.gov (Click on "State Partners")

Cooperative extension agents are affiliated with land-grant universities. Some of these professionals provide money management education. Check with the university in your area to determine if there is an individual who can assist you.

Debt Counselors of America www.getoutofdebt.org

This Internet-based, nonprofit organization sells inexpensive educational materials on money management and helps individuals develop plans to repay their debts.

National Foundation for Consumer Credit (NFCC)
www.nfcc.org

The NFCC is a nationwide network of nonprofit budget and debt-counseling agencies in almost 1500 locations. The agencies provide educational programs and individual counseling sessions, either in-person or by

phone and mail. They teach people basic money management skills, such as handling credit, and assist them in resolving debt problems. Counseling sessions may be free or charge a reasonable fee.

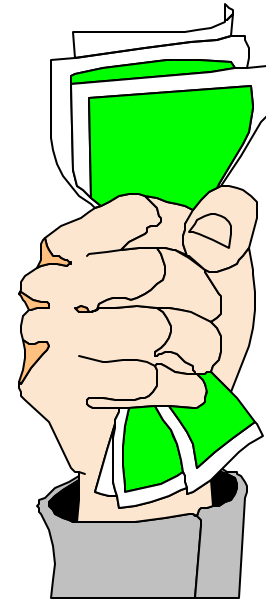
The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



PAYDAY LOANS = COSTLY CASH



DEPARTMENT OF FINANCIAL INSTITUTIONS

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